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CHARLES ELMORE CROPLEY

No. 561

In the Supreme Court of the United States

October Term, 1950

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT.

To the Honorable Chief Justice, and Associate Justices of the United States Supreme Court:

Your petitioner, Clinton F. Williams, Jr., prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Tenth Circuit, entered in the above-entitled case on December 2, 1950. (Petition for rehearing denied on December 29, 1950.)

A certified transcript of the record in this case including the proceedings in said Circuit Court of Appeals, is furnished herewith in accordance with Rule 38 of the Rules of this Court.

Opinions Below.

The opinion of the District Court (R. 15) is reported in 82 F. Supp. 408. The opinion of the Court of Appeals (R. 234) is reported in 87 U. S. P. Q. 354 (Adv. Shts. dated

Dec. 16, 1950). The opinion of the Court of Appeals at the time of this printing had not been published in the Federal Reporter.

Jurisdiction.

The judgment of the Court of Appeals was entered December 2, 1950 (R. 258). The jurisdiction of this Court is invoked under 28 U. S. C., Section 1254(1).

Statement of the Case.

This petition concerns a case that was argued once before the Court of Appeals for the Tenth Circuit, then reargued at the court's request, thereafter considered "in banc" by that court without further argument, and finally decided by a three-to-two majority, with two of the judges who heard the arguments submitting dissenting opinions. The legal points involved have to do with the patent doctrine of repair versus reconstruction, and with restraint of trade, and misuse of patents.

Plaintiff-Respondent, Hughes Tool Company,[1] originally brought this suit against the Defendant-Petitioner, Clinton F. Williams, Jr.,[2] for infringement of two patents, namely, Scott, *et al.*, patent No. 1,983,316, issued December 4, 1934 (R. 141) and Fletcher patent No. 1,856,627, issued May 3, 1932, now expired (R. 145), each relating to a *combination* of elements found in roller cone drill bits used in the drilling of oil wells; for conversion of certain drill bits; and for interference with contracts between Hughes and users of drill bits (R. 1-5).

1. Hereafter called Hughes.
2. Hereafter called Williams.

Williams in his answer (R. 5-11) denied the charges, pleaded affirmatively that Hughes had misused its patents and violated the anti-trust laws; and, counterclaimed for the resultant interference with Williams' business (R. 11-13). Both parties asked injunctive relief (R. 3, 4 and 12).

The evidence disclosed that Williams sharpened the cutting teeth of drill bits by welding a small amount of hard metal (tungsten carbide) onto each dulled tooth (R. 104) in long known fashion (R. 175-178, 199-221). (This is commonly called "retipping.") Thus, Williams performed a service for persons in possession of the bits. He did not buy or sell either new or used bits (R. 103), and the claim that he interfered with Hughes' contracts was based solely upon his activities in retipping for others.

Some of these bits were manufactured by Hughes and distributed by Hughes under the following contract printed on Plaintiff's Exhibit 18 (R. 149):

> "Hughes Roller Rock Bits and all Core Bit Heads are never sold but are leased. When the original cutter teeth and/or bearing have served their useful life, the user will surrender the bits to Hughes Tool Company upon request. In accepting delivery, the user agrees not to surrender any of the tools as mentioned above to other than a duly authorized representative of the Hughes Tool Company."

In the Appendix there is shown a photograph of PX 4 a retipped bit, PX 23 a new bit, and PX 26 a dull bit.

The evidence further disclosed that some of the bits retipped by Williams were made in accordance with two combination patents owned by Hughes. The patents do not cover the teeth of the bits *per se*, for a patent on the shape of the teeth has already been issued and has expired. (R. 193)

Upon delivery of the bits Hughes receives the full price and all bits recaptured are sold as scrap for remelting *only* (R. 137, 138).

The District Court held the patents valid and infringed; the contracts between Hughes and users of the bits valid and enforceable; no misuse of the patents or violations of the anti-trust laws; *but no conversion of the bits* by Williams (R. 15-22). Thus, the District Court adjudged Williams guilty of patent infringement and interference with Hughes' contracts by the act of sharpening, or retipping, the teeth of dull drill bits, and adjudged that he should be enjoined there against (R. 27).

The Court of Appeals for the Tenth Circuit (Judges Phillips, Huxman and Murrah) heard the argument on appeal on January 6, 1950.

On March 17, 1950, the Clerk of the Court for Judge Phillips, informed counsel by letter (R. 230-231) that the patents had been decided to be valid, *"but that retipping of the bits constitutes repair and not reconstruction, and therefore, retipping does not constitute infringement,"* and ordered reargument *only* as to the meaning of and law applicable to the Hughes' contract.

The case was reargued on May 11, 1950, (again before Judges Phillips, Huxman and Murrah), the argument being strictly limited to the contract phase of the litigation.

On June 2, 1950, Chief Judge Phillips informed counsel by letter (Appendix here, p. 27) that the case was to be submitted *to all five members* of the Court of Appeals. The letter seemed to show a desire by the Court that counsel agree to permit the additional members to participate *without reargument of the case,* and counsel therefore did

so. It contained no indication of any intention on the part of the Court to reconsider the question of infringement.

On December 2, 1950, the Court of Appeals "in banc" rendered a decision (R. 234), *the two additional members, who heard none of the arguments, concurring with Chief Judge Phillips* in holding the patents not only valid, *but also infringed* (thus reversing the position indicated in the letter of March 17, 1950), and also holding the contracts valid and enforceable, and not a misuse of the patents, nor in conflict with the anti-trust laws.

Judge Huxman, *who heard both arguments,* and Judge Murrah, *who also heard both arguments,* each wrote a dissent. Both felt that there was no patent infringement. Judge Huxman considered the unexpired patent invalid for want of invention. Judge Murrah did not go so far as to say he believed the patent to be invalid, but his dissent seems to indicate a doubt as to its validity.

Judge Huxman believed the Hughes contract *not to be violated* by Williams' activities in retipping drill bits. Judge Murrah believed that the contracts *were violated, but* he also thought that the contracts restrained trade. Judge Murrah suggested return of the case to the District Court to determine whether or not the restraint was material.

Williams requested a rehearing (R. 261) on the ground that the ruling of the Court of Appeals for the Tenth Circuit was in conflict with the unanimous decision of this Court in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.,* 320 U. S. 680, and the decision of *Mercoid Corp.* v. *Mid-Continent Investment Co., et al.,* 320 U. S. 661. Rehearing was refused, Judges Huxman and Murrah again dissenting (R. 266).

Questions Presented.

The decision of the Court of Appeals for the Tenth Circuit presents the following questions:

1. May a defendant be prevented from sharpening a dulled tool in an old and long known manner,

(a) by patents directed to a *combination* of parts forming the tool, but not directed to the part sharpened *per se,* nor to any process of sharpening?

(b) by a distribution contract that, for full reward, transfers the tool to a user for all of the use that the tool is ever to have, but attempts to arbitrarily limit the useful life of the tool so as to create an artificially enlarged market for new tools and substantial economic waste?

(c) by any combination of (a) and (b)?

2. Does the use of the patents and contract above, together with business practices and a multiplicity of lawsuits, all designed to prevent the sharpening of dulled tools in an old well known manner, constitute a misuse of the patents, and a violation of the anti-trust laws?

3. May the owner of a combination patent who controls 70% of the market, who markets the patented device and receives the full reward therefor, impose a limitation in time of use by printing a form of "lease" on the delivery ticket that has been construed to permit its recapture after the "useful life" of one element of the combination?

4. Are Fletcher Patent No. 1,856,627 and Scott, *et al.*, Patent No. 1,983,316 valid and infringed?

REASONS FOR GRANTING CERTIORARI.

Certiorari should be granted because the decision below:

(*1*) is of great public importance in that it is seriously injurious to the rights of several large classes of persons, and will wrongly affect the outcome of a large number of other litigations;

(*2*) was made by an oddly divided Court of Appeals in a way that shows an obvious need of guidance by this Court; and

(*3*) establishes important legal precedents on at least two federal questions, which are erroneous, these precedents being in conflict, at least in principle, with applicable decisions of this Court and other Courts of Appeal.

Reason No. 1—Public Importance.

The decision below is not only wrong, and not only establishes several very seriously erroneous precedents of federal law in the Tenth Circuit, but it affects the substantive rights of at least hundreds, and perhaps thousands, of welders and welding shop operators that retip drill bits, the people that sell them welding supplies, the drilling contractors, the oil companies, and eventually the oil-consuming public.

All of these people are affected more or less directly by the economic waste and restraint on competition that will be engendered by the decision of the Court of Appeals for the Tenth Circuit if it is permitted to stand. Since the *great majority*, 60 to 70%, of all drill bits are manufactured by Hughes (R. 229), the retippers will lose most of their busi-

ness, and those who supply them with welding materials will lose a substantial proportion of their business (R. 123). The costs of drilling contractors and of oil companies will be increased and these costs will be passed on to the oil-consuming public.

The Court of Appeals for the Tenth Circuit has sanctioned an industrial featherbedding scheme which could have devastating effects on the National economy, particularly in the time of an emergency. There is today such a shortage of petroleum products, including aviation gasoline, that the military "have not been able to secure its total requirements," and this is a serious situation, due partly, at least, to the fact that "75,000 wells were not drilled in the period of 1941 through 1947 due to the shortage of steel, manpower and money," as was stated by W. A. Chapman, U. S. A. F., Munitions Board, Petroleum Division, in an article, "Drilling Has a Job to Do in Time of War," in the January, 1951 issue of "Drilling" at page 26.[3]

In England where Hughes sells its bits (R. 89) with no pretense of "leasing" it has been found that considerable increased footage per bit can be had from retipping. From the August 18, 1945 issue of "Petroleum Times"[4] there is an interesting article on the importance of retipping, entitled, "Hard Facing and Rebuilding Bits—A New Material Development in Britain." The economic importance of the retipping of drill bits in far Eastern oil fields, and particularly the value of conservation of materials has been clearly set forth at page 660:

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3. Copy in the library of the Bureau of Mines, Washington, D. C.

4. Copy in the library of the Bureau of Mines, Washington, D. C.

"Converting Hard into Soft Formation Bits by 'Tungsit':

"It is usual in drilling medium depth holes to use *one diameter* size bit to casing depth although the *type* of bit used may vary considerably according to the formation. In a hard formation the bit may have run so many hours that the limited remaining life of the bearings would not make re-tipping an economic proposition for further use in the same formation. In such a case it has been found good practice to re-tip the teeth, at the same time altering their shape and number so that the bit becomes suitable for use in softer formations where the load is lighter. This allows the bit to make the maximum footage during the life of its bearings. A typical example from British drilling may be quoted:

> *'A new Hughes OWS bit drilled* 365 *ft. in limestone and shale in* 15 *hours. Probably if run longer, the extra life would have not exceeded* 50 *ft. in three hours. This bit pulled at* 365 *ft. was re-tipped with "Tungsit" and then drilled* 592 *ft. in marls and abrasive sandstone in nine hours before it was finally scrapped'."*

At page 662:

> "There is no doubt that the organised use of re-tipped bits in the British drilling programme according to the foregoing scheme provided a valuable service. At Eakring the increase in footage per bit was 70 per cent. and the system of bit issue and maintenance was of considerable value to the conservation of materials under wartime conditions. Such conservation will be of importance in oilfields under British control for many years to come."

In the present case one drilling contractor testified that he had saved $75,000.00 by retipping (R. 118). This indi-

cates that the saving in the entire oil industry would be enormous.

Still in addition to the bad precedents and individual damage that will be done by the above decision, the above decision will affect, we think wrongly, the decisions that are yet to be made in a number of other actions brought by the plaintiff here against other retipper defendants. The following legal actions against retippers have been suspended pending the decision here:

Hughes Tool Company v. *D. B. Cole,* Civil Action No. 4370, W. D. Okla., filed May 3, 1949, 623 O. G. 321;

Hughes Tool Company v. *B. F. Conaghan,* Civil Action No. 4374, W. D. Okla., filed May 3, 1949, 623 O. G. 321;

Hughes Tool Company v. *R. W. Ford,* Civil Action No. 2537, E. D. Okla., filed May 3, 1949, 623 O. G. 321;

Hughes Tool Company v. *B. F. Shedd,* Civil Action No. 2538, E. D. Okla., filed May 3, 1949, 623 O. G. 321.

Also dependent on the outcome of this case, although perhaps to a lesser degree are the cases of:

Hughes Tool Company v. *Chicago Pneumatic Tool Company,* 90 Fed. Supp. 845, 85 U. S. P. Q. 455 (May 18, 1950), now pending before the Tenth Circuit Court of Appeals;

Hughes Tool Company v. *Robertson Rock Bit Company, Inc., et al.,* Oct. Term, 1949, No. 486 in this Court.

In addition to these cases, the plaintiff has filed and doubtless will continue to file numerous replevin or seques-

tration suits to reclaim "leased" bits that it claims to own (R. 103, 109).

Reason No. 2—Need of Guidance.

The statement of the case shows the difficulty that the Court of Appeals encountered in reaching a decision. This, and the two dissenting opinions by two of the three judges that heard the oral arguments, is eloquent testimony that uncertainty exists as to the law involved and that guidance from this Court is needed.

Reason No. 3—Federal Question No. 1.

REPAIR v. RECONSTRUCTION.

One of the general limits of all patent monopolies is established by the doctrine of repair versus reconstruction. Thus repairing of a patented article does not constitute infringement, but reconstruction does. The line where repair ends and reconstruction begins, therefore, defines an important limit to patent monopolies in general.

This Court set this line in *Wilson* v. *Simpson*, 9 How. 109 (1850), *Cotton Tie Co.* v. *Simmons*, 106 U. S. 89 (1882), *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U. S. 425 (1894) and *Heyer* v. *Duplicator*, 263 U. S. 100 (1923).

In three of these cases the repair consisted in replacing an obviously temporary part that was clearly intended to be replaced and in the fourth case, *Cotton Tie Co.* v. *Simmons*, the device and its invention was clearly destroyed and rebuilt. Thus, the line between reconstruction and repair was not and did not need to be closely set.

Now, many years later, the Court of Appeals for the

Tenth Circuit has attempted to fix the line more closely, and in so doing has placed it so as to extend the patent monopoly and permit it to infringe upon and stop the normal practice of an old, well known repair art.

Retipping, that is, sharpening dulled drill bit teeth by welding hard metal thereto, was old well before the time of the patents in suit (R. 175, 178, 199-221). Patentee improved the drill bits then in use (not with respect to the form of the teeth, upon which a patent has already expired, R. 193), and was granted the two combination patents in suit. Not content with the normal profit from the sale of such improved bits, patentee attempted to preclude the unpatented teeth of the improved bits from being subjected to the old practice of retipping. This, in turn, increased patentee's market for new bits.

If this practice is permitted, patentees will be able to use their patents to control the making of any normal repair to their products. Shoe manufacturers can stop shoe repairers from half-soling shoes. Tire manufacturers can stop recapping.

Petitioner urges that the Court of Appeals should have followed *Wilson* v. *Simpson*, 9 How. 109, where it is stated that (pp. 122-123):

> "We admit, for such is the rule in *Wilson* v. *Rousseau*, 4 Howard, that when the material of the combination ceases to exist, in whatever way that may occur, the right to renew it depends upon the right to make the invention. If the right to make does not exist, there is no right to rebuild the combination.
>
> "But it does not follow, when one of the elements of the combination has become so much worn as to be inoperative, or has been broken, that the machine no longer exists, for *restoration* to its original use, by the

owner *who has bought its use.* When the wearing or injury is partial, then repair is restoration, and not reconstruction.

"Illustrations of this will occur to any one, from the frequent repairs of many machines for agricultural purposes. Also from the repair and replacement of broken or worn-out parts of larger and more complex combinations for manufactures.

"In either case, repairing partial injuries, whether they occur from accident or from wear and tear, is only refitting a machine for use. And it is no more than that, *though it shall be a replacement of an essential part of a combination.* It is the use of the whole of that which a purchaser buys, when the patentee sells to him a machine; and when he repairs the damages which may be done to it, it is no more than the exercise of that right of care which every one may use to give duration to that which he owns, *or has a right to use as a whole.*" (Emphasis ours.)

This case is not only legal authority for petitioner's position, it is factual anticipation for the idea of renewing the cutting edges of a cutting machine.

Instead of following *Wilson* v. *Simpson* the Court of Appeals held in this case (R. 243-244):

"Williams, by his process of retipping, undertakes to restore the worn-out teeth as nearly as possible to their original form, size and position. He thus reconstructs and replaces that element of each patent wherein lies the novel features of the combination. We hold that so doing is not permissible repair, but reconstruction, constituting infringement."

The above holding of the Court of Appeals for the Tenth Circuit appears to be in direct conflict with the decision of the Court of Appeals for the First Circuit in the

case of *Goodyear* v. *Jackson,* 112 Fed. 146 (1901), wherein it is stated at page 149:

> "* * * When the patented machine has passed outside the monopoly by a sale and purchase, the patentee has no right to impose any restrictions on its use for his own benefit. He cannot forbid the further use of the machine because it is out of repair in consequence of the wearing out or breaking of some of its parts, and so oblige the purchaser to buy a new machine. The purchased machine has become the individual property of the purchaser, and is like any other piece of property which he owns. He may sell it, or he may use it so long as its usefulness lasts, and then throw it away, or dispose of it for junk. He may *prolong its life* and *usefulness by repairs more or less extensive, so long as its original identity is not lost.* He is only prohibited from constructing a substantially new machine * * *."

And at page 155:

> "* * * It cannot be said, therefore, that the replacement by the purchaser of the cam or the pull off lever which moves the pull off truck constituted an infringement of the patent, although it may be this cam was the characteristic and most essential element in the combination. The breaking or *wearing* out of this cam resulted in *only a partial destruction of the patented combination,* and its replacement by a new cam was plainly a *restoration,* and not a substantial reconstruction of the combination." (Emphasis ours.)

The court below, in this case, has held that the dulling of the teeth destroys the dominating, essential part of the combination of each of the two patents involved and hence that retipping infringes. Even though the court below considered the teeth to be "non-expendable," this ruling conflicts with the ruling of the Sixth Circuit Court of Appeals

in *Automotive Parts Co.* v. *Wisconsin Axle Co.*, 81 F. (2d) 125 (1935), where it is stated at page 127:

> "* * * It is not to be decided upon a reasonably expected effective operation of the combination as a whole, the so-called activity or passivity of the parts, or upon convenience or necessities of method in making the replacements. Thus, if the new parts so dominate the structural substance of the whole as to justify the conclusion that it has been made anew, there is a rebuilding or reconstruction; and *conversely*, where the original parts, after replacement, are so large a part of the whole structural substance as to preponderate over the new, there has not been a reconstruction *but only repair.*" (Emphasis ours.)

The present situation is further aggravated by the fact that Hughes has *expired* patents disclosing tipping and retipping (R. 177, 201).

Respondent will no doubt urge the cases of *Southwestern* v. *Hughes*, 98 F. (2d) 42 (C. C. A. 10, 1938) and *Hughes* v. *Owen*, 123 F. (2d) 950 (C. C. A. 5, 1941) for the Court of Appeals in this present case believed it found support in these cases.

Petitioner does not believe that these cases support the present decision and believes that if they did they would be wrong and deserving of review by this Court for the reasons already urged for the present case. However, Judge Murrah in his dissenting opinion very clearly explained why these cases do not support the present decision (R. 250-254).

***Reason No. 3*—Federal Question No. 2.**

RESTRAINT OF TRADE.

Approaching the present problem from another direction we find that the Federal law prohibits certain restraints of trade. These restraints are prohibited by operation of the Sherman and Clayton Acts and also by reason of the common law against monopoly, and the doctrine of misuse of patents as expounded in several decisions of this Court.

In contradistinction to the patent monopoly, we may visualize the area of prohibited restraint as an area inside of which it is prohibited for even a patentee to go, either by the use of patents or contracts. Again, the general principles that determine the boundary are highly important for they determine whether or not our Federal law against undue restraints shall be effective. Petitioner's position here is that the decision below does such violence to these general principles as to permit the Federal law against undue restraints to be avoided and thus rendered largely ineffective.

This Court has stricken down every previous attempt to extend a patent monopoly beyond the limits of the grant. These have involved attempted extensions of time[5], territory[6], resale price[7], use[8], and control of unpatented materials[9].

5. *Wilson* v. *Rousseau*, 4 How. 646 (1846);
Simpson v. *Wilson*, 4 How. 709 (1846);
Bloomer v. *McQuewan*, 14 How. 539 (1852);
Bloomer v. *Millinger*, 1 Wall. 340 (1864).

6. *Adams* v. *Burks*, 84 U. S. 453 (1873);
Hobbie v. *Jennison*, 149 U. S. 355 (1893);
Keeler v. *Standard Folding Bed*, 157 U. S. 659 (1895).

7. *Bauer* v. *O'Donnell*, 229 U. S. 1 (1913);
Straus v. *Victor Talking Machine Co.*, 243 U. S. 490 (1917);
Boston Store v. *American Graphophone Co.*, 246 U. S. 8 (1918);
United States v. *Masonite Corp.*, 316 U. S. 265 (1942).

The situation in the case at bar presents a slightly more difficult problem of restraint than some previous cases because the patentee Hughes has combination patents on drill bits, and in manufacturing and "leasing" the bits tries by an interwoven arrangement of patents, contracts, business practices and lawsuits to prevent the repair of unpatented drill bit teeth, which would prolong the useful life of the bits. The result is the destruction of thousands of still usable bits, thus artificially increasing Hughes' market for new bits.

It may be urged that Hughes' "competitive" position is not improved by the lease, nor its market for new bits "artificially" enlarged. However, it seems of little moment that Hughes sells more bits because retippers are stopped from retipping instead of because another manufacturer is put out of business.

It also seems clear that the market for new bits is enlarged by the practice to which petitioner objects, and since this enlargement is the result of a combination of contracts and patents, instead of the intrinsic requirements of the industry, the enlargement appears to be properly designated as "artificial."

The boundary of the area of illegal restraint of trade appears to be in danger of a serious collapse at the point where a patent monopoly, a contract, or both, may be used

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8. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917);
United Shoe Machinery Corp. v. *United States*, 258 U. S. 451 (1922).

9. *Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27 (1931);
Leitch Manufacturing Co. v. *Barber Co., Inc.*, 302 U. S. 458 (1938);
Ethyl Gasoline Corp. v. *United States*, 309 U. S. 436 (1940);
Morton Salt Co. v. *Suppiger Co.*, 314 U. S. 488 (1942);
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International Salt Co. v. *United States*, 332 U. S. 392 (1947);
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to prevent the practice of an old well known repair activity, not to benefit a directly competing business of the same kind, but to benefit an indirectly competing business.

The prohibited activity is sharpening, retipping, or repairing generally. The business to be benefited, by artificial enlargement, is the manufacture of new bits, or of any other new article of manufacture. The law as set by the decision below could obviously have serious repercussions in many fields. Thus, shoe manufacturers could prevent the half-soling of shoes and tire manufacturers could prevent re-capping, as mentioned above.

The Court of Appeals for the Tenth Circuit in holding the contract valid and not violative of the anti-trust laws stated in the opinion at page 360 (87 U. S. P. Q. 354, 360) (R. 246):

> "* * * Here, the provision imposes a restriction on the use in point of time and a duty to surrender the bit when the right to use has ended. Beyond that it imposes no requirement, no prohibition and no condition on the lessee. It is not, in our judgment, within the principle of the 'Tie-in' cases."

This holding of the Court of Appeals appears to be in direct conflict with this Court's holding in *United Shoe Machinery Corp., et al.*, v. *United States*, 258 U. S. 451, at page 457:

> "While the clauses enjoined do not contain specific agreements not to use the machinery of a competitor of the lessor, the practical effect of these drastic provisions is to prevent such use. We can entertain no doubt that such provisions as were enjoined are embraced in the broad terms of the Clayton Act which cover all conditions, agreements or understandings of this nature. That such restrictive and tying

agreements must necessarily lessen competition and tend to monopoly is, we believe, equally apparent.",

and at page 458:

"This system of 'tying' restrictions is quite as effective as express covenants could be and practically compels the use of the machinery of the lessor except upon risks which manufacturers will not willingly incur. It is true that the record discloses that in many instances these provisions were not enforced. In some cases they were. In frequent instances it was sufficient to call the attention of the lessee to the fact that they were contained in the lease to insure a compliance with their provisions. The power to enforce them is omnipresent and their restraining influence constantly operates upon competitors and lessees. The fact that the lessor in many instances forebore to enforce these provisions does not make them any less agreements within the condemnation of the Clayton Act."

The principle of the *Shoe Machinery* case is that something more than the lawful monopoly of the patent grant was exerted in the leases to give the Shoe Machinery Corporation a competitive advantage and that this was in violation of the Clayton Act. The Court of Appeals in this case apparently considered that the monopoly granted by the combination patents of Hughes could be broadened by a "lease" to preclude a repair service, not covered by the grant, thus giving Hughes a competitive advantage that according to the *Shoe Machinery* case it should not have.

In the Hughes contract in addition to the affirmative covenant asserted to limit the useful life of the bit to one dulling of the teeth, there is asserted to be an implied negative covenant not to have the unpatented dull teeth repaired. The principle involved is no different from the indirect *ex parte* restriction not to use the machinery of a

competitor, which was condemned in the *Shoe Machinery* case.

The Court of Appeals for the Tenth Circuit in holding that the contract did not contain specific restrictions in restraint of trade is in conflict with the Circuit Court of Appeals for the Third Circuit and the Sixth Circuit in the cases of *Radio Corp.* v. *Lord,* 28 F. (2d) 257 (1928); and *Landis Machinery Co.* v. *Chaso Tool Co.,* 141 F. (2d) 800, 61 U. S. P. Q. 164 (1944), respectively.

In the *Radio* case, the Court stated at page 261:

> "Was the contract for the sale of vacuum tubes made on condition that the purchaser should not use or deal in the goods of a competitor of the seller? The District Judge found that there was no 'explicit condition or agreement to that effect,' but that the evidence before him was conclusive that the practical effect of paragraph 9 was to prevent the licensees from using or dealing in tubes other than those sold by the defendant; that its provisions were as effective as express covenants would be, and practically compelled the use of the tubes of the defendant in all receiving sets made by the licensees, except upon risks which manufacturers will not incur; and that such agreements were prohibited by the Clayton Act. *Standard Fashion Co.* v. *Magrane-Houston Co.,* 258 U. S. 346, 355, 42 S. Ct. 360, 66 L. Ed. 653; *United Shoe Machinery Corp.* v. *United States,* 258 U. S. 451, 457, 458, 42 S. Ct. 363, 66 L. Ed. 708."

In the *Landis Machinery* case, the Court stated at page 804:

> "* * * Compulsion is there whether expressed or not. Since the only justification for the monopoly thus sought over unpatented chasers is based upon the patent grants, and these proving of no avail for such purpose, the plaintiff's practices are clearly in violation of

the anti-trust laws. That which the patent law does not authorize the Clayton Act specifically forbids."

It will be apparent that the ruling of the Tenth Circuit considered that the terminology of the Hughes lease agreement did not expressly prohibit or restrain anything, but only imposed a limitation as to time. Yet the business activities of Hughes in enforcing its "lease" clearly discloses that in practical effect the restraint is there whether expressed or not, and this Court of Appeals' ruling is in obvious conflict with the above decisions in the Third and Sixth Circuits.

The holding of the Court of Appeals for the Tenth Circuit is that Hughes may, by a patent on a combination of parts forming a drill bit, exercise control over an unpatented part of that combination, namely the teeth, and thus reap a special benefit or profit. This ruling appears to petitioner to be in direct conflict with this Court's unanimous opinion in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680, stating at page 684:

> "The fact that an unpatented part of a combination patent *may distinguish* the invention does not draw to it the privileges of a patent. That may be done only in the manner provided by law. However worthy it may be, however essential to the patent, an unpatented part of a *combination* patent is no more entitled to monopolistic protection than any other unpatented device. For as we pointed out in *Mercoid* v. *Mid-Continent Investment Co., supra, a patent on a combination* is a patent on the assembled or functioning whole, *not on the separate parts.* The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law. For the reasons stated in *Mercoid* v. *Mid-Continent Investment Co., supra,* the effort here made

to control competition in this unpatented device plainly violates the anti-trust laws, even apart from the price-fixing provisions of the license agreements. It follows that petitioner is entitled to be relieved against the consequences of those acts. It likewise follows that respondent may not obtain from a court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent. *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 494; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495." (Emphasis ours.)

The Court of Appeals in holding that the Hughes contract imposed only a reasonable limitation as to time, apparently did not consider that the limitation was actually a limitation of the use of the bit to the life of an unpatented part described in the combination patent. Such conclusion of the Court of Appeals apparently did not take into consideration the similiarity in principle between this case and the *Mercoid* case. In both cases, the user only received a license to use the product covered by the patent by agreeing to a restraint which the patent did not impose. In the *Mercoid* case, the restraint was the purchase of an unpatented element of the combination of the patent from the patentee only, while in the case at bar the effected restraint was to the right to effect a normal repair of the unpatented dulled teeth as necessary to complete the useful life of the bits. In both cases, the restraint is an enlargement of the patent monopoly beyond the limits of the patent grant.

The Court of Appeals for the Tenth Circuit after setting out the reasons for the "lease" justified the contract in the following manner (R. 246):

"* * * But here, as we have indicated, Hughes, by the lease agreements, merely imposes a limitation as

to the time the bits may be used, a limitation clearly within the range of its patent monopoly, and it does so, not for *ulterior* purposes, but to carry out a practical, reasonable and fair business practice that will enable it to better serve its lessee, maintain a high standard of quality in its products *and protect its business reputation.*" (Emphasis ours.)

Such holding is apparently in direct conflict with this Court's ruling in *International Business Machine Corp.* v. *United States,* 298 U. S. 131, where the restriction was upon the ultimate user of the leased product, and the lease terminated if the user utilized cards not manufactured by the lessor of the leased machine. Although the restriction against competitive cards was not expressly stated, this Court held the lease as violative of Section 3 of the Clayton Act, stating at page 135:

"It is true that the condition is not in so many words against the use of the cards of a competitor, but is affirmative in form, that the lessee shall use only appellant's cards in the leased machine. But as the lessee can make no use of the cards except with the leased machines, and the specified use of appellant's cards precludes the use of the cards of any competitor, the condition operates in the manner forbidden by the statute."

In the *Business Machine* case the patentee strongly contended that Section 3 of the Clayton Act was not applicable where the purpose and effect was to protect the good will of the lessor in the leased machines. Hughes in the case at bar, has, and no doubt will make this same contention. This Court in ruling that such was not an exception to the statute stated at pages 139-140:

"Appellant is not prevented from proclaiming the virtues of its own cards or warning against the danger

of using, in its machines, cards which do not conform to the necessary specifications, or even from making its leases conditional upon the use of cards which conform to them. For aught that appears such measures would protect its *good will,* without the creation of monopoly or resort to the suppression of competition."

"* * * we can perceive no tenable basis for an exception in favor of a condition whose substantial benefit to the lessor is the elimination of business competition and the creation of monopoly, rather *than the protection of its good will,* and where it does not appear that the latter can not be achieved by methods which do not tend to monopoly and are not otherwise unlawful." (Emphasis ours.)

In *International Salt* v. *United States,* 332 U. S. 392 (1947), this Court said at page 398:

"Rules for use of leased machinery must not be disguised restraints of free competition * * *."

If Hughes sold their bits under a sales agreement that the purchasers could not retip the unpatented dulled teeth, there seems to be little doubt that such procedure would be an illegal restraint. In the case at bar, Hughes' business methods and "lease" agreement have obviously only one real purpose, according to Hughes' senior vice-president (R. 127-132), to do by indirection what they are prohibited from doing directly.

It will be apparent that the above discussion has been limited to restraints generally and the cases relied upon as in conflict with the holding of the Court of Appeals for the Tenth Circuit have been concerned mainly with Section 3 of the Clayton Act. However, Hughes' misuse of the patents by extension of the lawful monopoly beyond the metes and bounds of the patent grant is contrary to the public policy

upon which the patent laws are predicated. Such misuse is in direct conflict with the significant decisions of this Court in *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488 (1942), and the companion case *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 (1942). This Court in these cases denied equitable relief to the patentee where the acts of the patentee were a misuse, irrespective of the reasonableness of the restraint imposed. It is also significant that in the *B. B. Chemical* case the patentee's only offense was the bringing of a suit for infringement to enforce the patent, and by doing so seeking to obtain exclusive rights in an unpatented material.

It is noteworthy that when the "leased" drill bits are recaptured by Hughes, they are not re-leased, or re-rented, in any manner, thus having none of the characteristics of *rental property.* Of the many thousands of recaptured bits only 1 or 2% (R. 87) are returned to Houston for laboratory examination. Furthermore, Hughes receives the *full reward* upon delivery of each bit under the "lease" which is placed as such in their accounting books, and upon which their taxes are paid (R. 137-138). This clearly indicates that the transaction is a "sale," under the principles set out by this Court in *United States* v. *Masonite,* 316 U. S. 265, 277-278, and *Straus* v. *Victor Talking Machine Co.,* 243 U. S. 490, 498-500.

Conclusion.

The court below misconstrued the doctrine of repair versus reconstruction and has sanctioned a disguised restraint of competition which permits a patent owner to extend his monopoly beyond the limits of the patent grant. In doing so, the patent owner is causing an enormous amount of economic waste by destroying good drill bits in order to

sell new ones. The adoption of Hughes' scheme by industry would be a serious blow to the national economy in this time of national emergency.

Wherefore, it is respectfully submitted that this petition for writ of certiorari to the Court of Appeals for the Tenth Circuit should be granted.

CHARLES M. MCKNIGHT,
First National Bank Bldg.,
Tulsa, Oklahoma,

ROBERT F. DAVIS,
Munsey Building,
Washington, D. C.,
Counsel for Petitioner.

APPENDIX.

UNITED STATES COURT OF APPEALS
Tenth Circuit

Denver 1, Colorado,
June 2, 1950.

Charles M. McKnight,
Beacon Building,
Tulsa, Oklahoma.

Robert F. Davis,
Munsey Building,
Washington, D. C.

Edward A. Haight,
George I. Haight,
209 So. LaSalle Street,
Chicago, Illinois.

R. F. Campbell,
Gulf Building,
Houston, Texas.

Lynn Adams,
1405 Apco Tower,
Oklahoma City 2, Oklahoma.

Gentlemen:

Re: No. 3915, Williams v. Hughes Tool Co.

The court has decided that the above cause should be submitted to all five members of the Court of Appeals.

Please advise whether you are willing that it be submitted to Judge Bratton and Judge Pickett upon the records, briefs and memoranda filed, or whether you desire oral argument.

If you insist on oral argument, the case can probably not be heard until the regular September, 1950, session of the court. If you are willing to submit it on the records

and briefs, it probably can be disposed of during the summer months.

Yours very truly,

Orie L. Phillips, Chief Judge.

I hereby certify this to be a true and correct copy.

Signed, C. M. McKnight.

UNITED STATES COURT OF APPEALS
Tenth Circuit
Office of the Clerk

Denver 2, Colorado,
January 17, 1951.

Mr. Charles M. McKnight,
First National Bank Building,
Tulsa 3, Oklahoma.

Dear Sir:

I have appellant's designation of the parts of the record to be printed for petition for certiorari in case No. 3915, C. F. Williams, Jr., vs. Hughes Tool Company.

In your designation you request under item 6 Chief Judge Phillips' letter of June 2 to counsel, item 7 letter of McKnight dated June 8 to Judge Phillips, and under item 8 letter of George Haight answering Chief Judge Phillips' letter of June 2.

This correspondence is in Judge Phillips' file. I therefore took the matter up with the Judge. He said that these letters were no part of the certiorari record and should not appear in the certiorari record. Under the circumstances,

we are preparing the certiorari record without these three items.

Very truly yours,

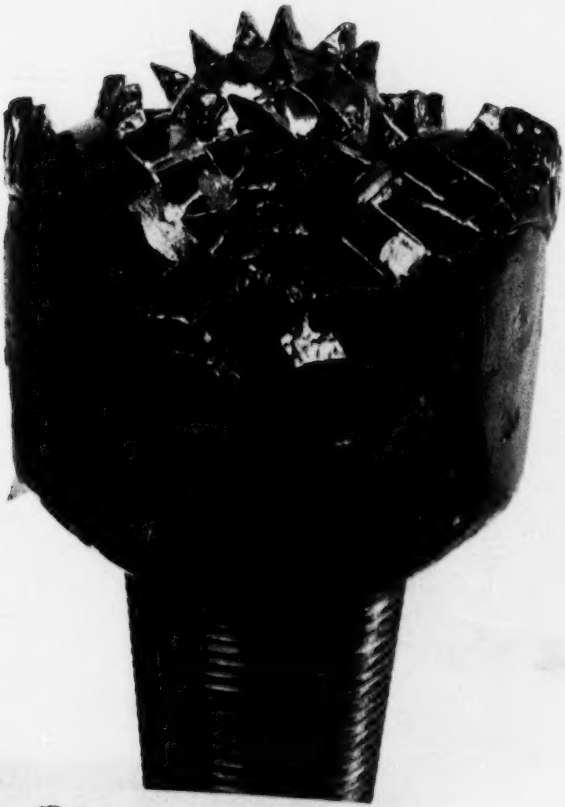
Robert B. Cartwright, Clerk.

RBC:gh

CC to: Mr. George Haight,
209 South LaSalle Street,
Chicago 4, Illinois.

I hereby certify this to be a true and correct copy.

Signed, C. M. McKnight.



PX 4 A RETIPPED BIT

PX23 A NEW BIT

PX 26 A DULL BIT